

**Supporting Statement for OMB No. 7100-0085:
Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans
(FR 2835) and
Quarterly Report of Credit Card Plans (FR 2835a)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with minor revision, two consumer credit reports:

- The Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835; OMB No. 7100-0085), which collects finance rates on selected loan types from a sample of commercial banks.
- The Quarterly Report of Credit Card Plans (FR 2835a; OMB No. 7100-0085), which collects credit card interest rates from a sample of commercial banks.

Data from these two reports help the staff analyze current household financial conditions and the implications of these conditions for household spending. In doing so, these data are a valuable input to the monetary policymaking process. The data are also used to create aggregate statistics on consumer loan terms that are published in the Federal Reserve's monthly statistical releases G.19, Consumer Credit, and G.20, Finance Companies. Some of the aggregates are used by the Federal Reserve in the calculation of the aggregate household debt service and financial obligations ratios for the Federal Reserve's quarterly Financial Obligations statistical release and by staff at the Bureau of Economic Analysis to calculate interest paid by households as part of the *National Income and Product Accounts*. The current reporting forms and instructions are available on the Federal Reserve's public website.

The Federal Reserve proposes to add new item 2, New automobiles (60-month), to the FR 2835. This item will collect the most common interest rate on 60-month loans for new automobiles. The division also proposes to decrease the authorized sample size for the FR 2835a from 80 commercial banks to 50 commercial banks. The proposed revision to the FR 2835 would increase its estimated annual burden from 90 to 132 hours, an increase of 42 hours. Finally, the proposed decrease in panel size to the FR 2835a would decrease its estimated annual burden from 160 to 100 hours, a reduction of 60 hours.

Background and Justification

The Federal Reserve has been the primary producer of aggregate statistics related to consumer credit since 1942. This role stems from the Federal Reserve's need to make well-informed monetary policy decisions and its public policy responsibilities related to consumer credit. Since the 1940s, the Federal Reserve has maintained programs for the direct collection of consumer credit data from commercial banks and finance companies. It obtains its information on credit provided by other types of financial institutions mainly through secondary sources.¹

¹ Prior to 1963, Federal Reserve also operated an extensive data collection and publication program covering department store credit; that responsibility was subsequently transferred to the Bureau of the Census.

The Federal Reserve has revised the consumer credit data collection program over the years to lessen reporting burden, to eliminate items of dubious quality, and to focus on items of highest priority for analysis. An exhaustive review of the program in 1982 resulted in major revisions as of January 1983. Data on gross credit flows were eliminated for all major lending groups except finance companies, the number of series on interest rates and non-rate loan terms was reduced sharply, and the size of the bank interest rate panel was cut.² Overall, respondent burden was reduced by almost 50 percent. In addition, three of four consumer credit statistical releases were eliminated.

In 1994, the staff removed an item on credit card interest rates from the FR 2835 and introduced the FR 2835a in order to collect more useful measures of such rates. This change was motivated by dissatisfaction among Board members with the “most common rate” data collected on the FR 2835. In introducing the FR 2835a, the staff was able to ask for more detailed information from large issuers of credit cards, without burdening the majority of the FR 2835 respondents (who were not in this group).

The Federal Reserve’s long-standing interest in consumer credit issues arises from a need to evaluate macroeconomic conditions and the probable consequences of monetary policy actions. The amount that consumers borrow and the terms at which they are able to borrow are major determinants of the general financial conditions of households. These conditions, in turn, play a major role supporting consumer spending, the largest component of gross domestic product (more than two-thirds of the total). Moreover, some of the more volatile components of consumer spending directly depend on the terms at which households can obtain consumer loans.

Description of Information Collection

The two reports being renewed would continue to gather data from commercial banks and auto finance companies on loan amounts, loan terms, and collection experience.

Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835)

The FR 2835 collects information from a sample of commercial banks on interest rates charged on loans for new vehicles and loans for other consumer goods and personal expenses. Interest rates on consumer loans made by commercial banks continue to be analytically significant. Auto and personal loans are major components of bank consumer lending, and changes in the terms of these loans represent an important input to analyses of the household sector prepared for the Federal Reserve and the FOMC. The data are used for internal analysis of household financial conditions.

² In 1988, gross flow data were eliminated from the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005).

Data Coverage. The FR 2835 respondents are asked to provide “the most common rate,” meaning the rate at which the largest dollar volume of loans of a particular type was made during the reporting week. For adjustable-rate loans, the initial rate is reported.

Reporting Frequency. The data are collected for February, May, August, and November and correspond to the calendar week beginning on the first Monday of the survey month. Continued collection of these data at least quarterly is necessary to prepare timely analyses of current macroeconomic conditions and the effect of monetary policy for the Federal Reserve and the FOMC.

Reporting Panel. The authorized reporting panel for the FR 2835 consists of 150 commercial banks. The original reporting panel size was 370 respondents. Although some banks have merged or otherwise dropped out of this voluntary survey, the Federal Reserve has attempted to maintain the panel at full strength. In recent quarters, about 125 commercial banks reported data.

Proposed Revision to the FR 2835 form and instructions

New Automobiles (60-month). The division proposes to add new item 2, New automobiles (60-month). This item would collect the most common interest rate on 60-month loans for new vehicles. The 60-month auto loan has become more common over time and is now far more prevalent than the 48-month loan. According to the Federal Reserve’s Survey of Consumer Finances (SCF) (FR 3059; OMB No. 7100-0295), nearly 60 percent of loans for new vehicles originated in the early part of this decade had a length of 60 months.³ Only about 16 percent of new vehicle loans had a length of 48 months, down from an average of 36 percent in the late 1980s.

For the time being, the proposed item on 60-month new auto loans would complement, not replace, the existing item on 48-month new auto loans. For more than twenty years, the latter item has provided a consistent basis for the commercial bank new auto loan interest rate series published on the G.19 release, and the division believes that this historical consistency is valuable. In addition, the 48-month series still appears to be statistically sound and continues to track related series fairly well. However, having a 60-month series would give the staff the option to change the commercial bank new auto interest rate shown in the G.19 release from the 48-month series to the 60-month series if statistical problems did arise because of a further drop in coverage.

The proposed data would serve other purposes as well. For example, it would provide a useful benchmark for analyzing the implications of financing incentive programs offered by the captive auto finance companies, as their auto loans tend to have 60-month maturities. Such programs are thought to have contributed importantly to quarter-to-quarter movements in consumer spending since the early part of this decade.

³ The analysis underlying these estimates extended only through 2001, as that is the most recent year for which SCF data are currently available. The 2004 SCF data are scheduled to be released in early 2006.

The proposed revision would increase the FR 2835 estimated annual burden from 90 to 132 hours, an increase of 42 hours. The division may consider eliminating the item on the 48-month new auto interest rate with the next renewal of the FR 2835; such a change would necessitate a series break in the commercial bank new auto interest rate published on the G.19 release but the transition would be eased by the fact that the period of overlap would have yielded information about how the levels and the dynamics of the 48-month series and 60-month series compare.

Quarterly Report of Credit Card Plans (FR 2835a)

The FR 2835a collects information on two measures of credit card interest rates from a sample of commercial banks with \$1 billion or more in credit card receivables and a representative group of smaller issuers. This panel design is used so that the data will be representative of interest rates paid by consumers on bank credit cards. The outstanding balances of the respondents represent about 40 percent of all owned and managed credit card receivables at commercial banks. The staff uses the data to analyze the credit card market and draw implications for the household sector.

Data Coverage. The FR 2835a collects information on two measures of average credit card interest rates from card-issuing commercial banks. One measure reflects the interest rate offered to credit cardholders, and the other reflects finance charges paid by cardholders with balances.

(1) Average nominal finance rate. For the measure termed the “average nominal finance rate, all accounts,” respondents are asked to report the simple average of interest rates across all of the issuer’s card accounts.⁴ Equivalently, respondents may provide the weighted average of interest rates across types of accounts that carry different rates, with the weights equaling the percentage of accounts of each type. Respondents also are asked to provide the total number of accounts, which the staff uses to calculate the weighted average of the nominal finance rate across banks.

This measure represents the rate at which banks are offering to make credit available to cardholders. It abstracts from what cardholders actually pay on average. In particular, many cardholders are “convenience users” who generally avoid finance charges by paying balances in full within an interest-free grace period. For a variety of reasons, interest rates on the accounts of convenience users may tend to differ from rates on the accounts cardholders who revolve balances and incur finance charges.⁵ Although these convenience users may rarely pay interest on credit card balances, the average nominal finance rate reflects the interest rate at which they could borrow (in addition to the rate paid by cardholders revolving balances).

⁴ In both cases, respondents are asked to report the rate applicable to purchases, as opposed to cash advances (which often are associated with a different rate).

⁵ The magnitude and even sign of differences in interest rates across cardholders of differing payment habits are *a priori* unclear. Convenience users, since they ordinarily do not incur finance charges, should be fairly insensitive to rates and thus seem as likely to choose a high-rate card as a low-rate card. However, insofar as convenience users are low-risk customers, card issuers may offer them lower rates (perhaps hoping that a low enough rate may stimulate some revolving of balances). Cardholders who revolve balances would be likely to seek low-rate cards. But insofar as they are higher-risk customers, card issuers may not offer them lower rates.

(2) *Average computed finance rate.* For the measure termed the “average computed finance rate,” respondents report the total finance charges billed during the survey month and the total balances on which finance charges are computed. The Federal Reserve calculates the average computed finance rate by dividing reported finance charges by the balances to which they apply (multiplying the result by twelve to obtain an annualized rate). The staff then computes a volume-weighted average finance rate across banks.

The average computed finance rate reveals the interest rates actually paid by those consumers who use their credit cards to obtain credit (beyond any initial grace period), as distinct from the rates offered to all cardholders.⁶

Both measures of credit card interest rates are necessary, given the range of Federal Reserve activities that require data on credit card interest rates. For example, Board members have been asked in the past to testify before the Congress on proposed federal legislation to set ceilings on credit card rates. The average nominal finance rate is more relevant to these inquiries. On the other hand, the average computed finance rate is usually more relevant to the macroeconomic issues addressed in monetary policy deliberations. For example, in analyzing consumer spending behavior, the staff needs accurate data on rates faced by those who are actually in debt and thus most vulnerable to income disruptions.

Respondents also are asked to provide *the total ending balances* for all accounts and for accounts with finance charges. The difference between these amounts represents a measure of convenience credit—balances that are incurred during the billing cycle but are paid off in full within the grace period. The share of convenience credit in total debt has varied over time in a way that potentially distorts traditional measures of household financial vulnerability. For example, the staff has done research showing that some of the uptrend in the aggregate financial obligations ratio has stemmed from greater convenience use of credit; this complicates the interpretation of the evolution of the financial obligations ratio since convenience balances are not necessarily associated with greater household financial strain in the way that longer-term debt might be.

Reporting Frequency. The data are collected for February, May, August, and November. As with the FR 2835, the quarterly frequency of the FR 2835a is adequate to track movements in credit card finance rates, but reporting on a less frequent schedule would not be sufficient for cyclical analysis.

Reporting Panel. Because of consolidation in the banking industry, the number of actual reporters has declined dramatically over time, and the authorized panel size has been reduced as well. On average over the past year, 21 banks have reported each quarter, down from a sample

⁶ It might appear that data from the Consolidated Reports of Condition and Income (Call Report; FFIEC 031 & 041; 7100-0036) could be used to calculate a similar finance rate, as that report includes outstanding receivables and interest income for revolving credit. However, the report does not distinguish the balances of convenience users from those of cardholders revolving balances; only the latter should be used in deriving an implicit interest rate from finance charges. In addition, the Call Report provides data corresponding to a mixture of revolving credit types rather than data exclusively for credit cards.

size of about 25 banks in 2003. The authorized sample size was reduced in 2003 from 100 commercial banks to 80 commercial banks.

Despite the downtrend in the number of respondents, coverage has been well maintained. The division currently estimates that the reporting banks accounted for about 50 percent of the outstanding credit card loans held or securitized by commercial banks; for the 2003 renewal, the division estimated coverage at just under 40 percent. In some cases, banks that have acquired other banks centralize their financial reporting such that a single response includes the information previously gathered from several respondents; such centralization may also add information from banks that were not reporting prior to being acquired.

Proposed Revision to the FR 2835a panel

The division proposes reducing the authorized panel size further from 80 commercial banks to 50 commercial banks. The staff feels that the reduction in the authorized panel size allows for adequate representation while permitting expansion of the respondent pool should the need arise.

Consultation Outside the Federal Reserve System

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Time Schedule for Information Collection and Publication

The reporting schedules are listed below:

<i>Report</i>	<i>Frequency</i>	<i>Reference period</i>	<i>Due date at Federal Reserve⁷</i>
FR 2835	quarterly	first full week of the mid-month of the quarter	second week following the reference week
FR 2835a	quarterly	end of mid-month of the quarter, or activity during the month	21 st day of month following the reference month

The data from these reports are used to create aggregates that are published in the Federal Reserve's monthly G.19 statistical release. The G.19 is released on or about the fifth business

⁷ Respondents submit the FR 2005 and FR 2012 data directly to the Federal Reserve Board. They submit the FR 2835 and FR 2835a data to the Federal Reserve Banks; Bank staff then edit and transmit the data to the Board for central processing.

day of the second month following the reference month. The release contains aggregate data on consumer credit outstanding and lending terms. Additional information about finance company lending terms is included in the Federal Reserve's monthly G.20 statistical release. Loan term data are also used by the Federal Reserve in the calculation of the aggregate household debt service and financial obligations ratio for the Federal Reserve's quarterly Financial Obligations release, and they are used by staff at the Bureau of Economic Analysis to calculate interest paid by households as part of the *National Income and Product Accounts*.

Copies of the statistical releases and all forms and instructions are available on the Federal Reserve's public web site (www.federalreserve.gov).

Legal Status

The Federal Reserve's Legal Division determined that the Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans and Quarterly Report of Credit Card Plans are authorized by law (12 U.S.C. §§248 (a)(2) and 3105 (c)(2)) and are voluntary. Individual respondent data from the FR 2835a is confidential under the Freedom of Information Act (5 U.S.C. §552(b)(4)). Data from the FR 2835, which collects information on interest rates at commercial banks, are not confidential. Each FR 2835 respondent is notified that the information it reports is available to the public upon request.

Estimate of Respondent Burden

As shown in the table below, the proposed total estimated annual burden would decrease from 250 to 232 hours. The proposed revision to the FR 2835 would increase its estimated annual burden from 90 to 132 hours, an increase of 42 hours. Finally, the proposed decrease in panel size to the FR 2835a would decrease its estimated annual burden from 160 to 100 hours, a reduction of 60 hours. The proposed estimated burden represents less than 1 percent of total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
FR 2835	150	4	.15	90
FR 2835a	80	4	.50	<u>160</u>
<i>total</i>				250
<i>Proposed</i>				
FR 2835	150	4	.22	132
FR 2835a	50	4	.50	<u>100</u>
<i>total</i>				232
<i>change</i>				-18

Based on a rate of \$20 per hour, the estimated annual cost to the public of these reports would decrease from \$5,000 to \$4,640.

Estimates of Costs to the Federal Reserve System

The estimated annual cost to the Federal Reserve System of collecting and processing the FR 2835 and FR 2835a will be obtained.